

**KEEP IT SIMPLE: SMALL BUSINESS TAX
SIMPLIFICATION AND REFORM, THE
COMMISSIONER RESPONDS**

HEARING
BEFORE THE
COMMITTEE ON SMALL BUSINESS
UNITED STATES
HOUSE OF REPRESENTATIVES
ONE HUNDRED FOURTEENTH CONGRESS
SECOND SESSION

HEARING HELD
APRIL 13, 2016



Small Business Committee Document Number 114-055
Available via the GPO Website: www.fdsys.gov

U.S. GOVERNMENT PUBLISHING OFFICE

99-834

WASHINGTON : 2016

For sale by the Superintendent of Documents, U.S. Government Publishing Office
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WEDNESDAY, APRIL 13, 2016

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 2:30 p.m., in Room 2360, Rayburn House Office Building. Hon. Steve Chabot [chairman of the Committee] presiding.

Present: Representatives Chabot, Luetkemeyer, Huelskamp, Gibson, Brat, Radewagen, Curbelo, Hardy, Kelly, Velázquez, Hahn, Lawrence, and Adams.

Chairman CHABOT. The meeting will come to order. Good afternoon and thank you all for being here and a special thanks to our witness, IRS Commissioner Koskinen, who has taken time out away from his very busy schedule during an especially busy week. We are 2 days before April 15, so we appreciate him being with us here today and, by the way, me and—my wife and I filed our taxes several weeks ago; timely so we are legal. Earlier today our Subcommittee on Economic Growth Tax and Capital Access heard from a panel of small businesses and experts who serve the small business community.

We hear from small business folks here all the time, we hear from individuals, from folks all over the country who repeatedly tell us that the Tax Code is just too complicated. People want to obey the law, however, the Tax Code gets more and more complicated every year and it makes it harder and harder for small companies to get it right and to take full advantage of provisions designed to help them. The complexity of our tax laws steals valuable resources, both time and money, from these businesses. It hinders their ability to grow, succeed, and create the jobs we need.

Making the Tax Code simpler is particularly important for American small business owners as they are disproportionately affected by tax complexity. The GAO testified before this Committee in July of last year that small businesses with one to five employees face an estimated tax compliance burden of more than \$4,000 annually per employee.

The problem is a combination of substantive and administrative complexity, meaning that not only is the law itself complicated, but the entire process of compliance is complicated as well. Tax laws alone come in at close to 3,000 pages. Regulations promulgated by the IRS add at least another 9,000 pages, and when you add in

case law the total increases exponentially up to around 70,000 pages. Our country's small businesses just cannot keep up.

We need to get our Tax Code working for small businesses instead of against them and that is what we are here to talk about today. We look forward to hearing the Commissioner's ideas as well as our members' on how we can work together on this. This Committee takes seriously its responsibility to listen to America's small businesses and work with them to make the Tax Code simpler and easier to understand. Again, we want to thank Commissioner Koskinen for joining us here today and I would now like to yield to the Ranking Member Ms. Velázquez for her opening statement.

Ms. VELAZQUEZ. Thank you, Mr. Chairman, thank you, commissioner, for being here today. This is a very valuable hearing which follows up on the subcommittee's session from this morning. During that hearing small businesses testified about the challenges they faced in complying with the American tax code and its regulations. It is my hope that during this hearing we can get perspective on what the IRS is doing to address this problem, and what steps Congress can take to improve this situation.

Make no mistake, the complexity of our tax code makes complying with the law more difficult and expensive and that burden hits America's entrepreneurs hardest. Individuals and businesses spend 6.1 billion hours annually complying with the filing requirement of the code. These efforts constitute \$163 billion in costs. With nearly a third of small businesses reporting that they spend more than 80 hours each week on tax compliance, it is clear simply adhering to tax laws is a challenging and expensive undertaking. At the same time the tax compliance is becoming increasingly complex and expensive. It appears some services from the IRS meant to provide businesses with assistance are being reduced.

During the 2015 tax season the IRS answered a little over one-third of telephone inquiries with an average wait time of 47 minutes. Half of written correspondence to the agency is not responded to within 90 days of being received. If, as the saying goes, time is money, this can only be a further drain on entrepreneurs' resources. Of course these statistics on wait time and response rates are not meant only to criticize the IRS. The agency has a daunting challenge, especially this time of year. It is important that Congress provide the resources the IRS needs to serve all taxpayers, especially small firms. These challenges bring us to something that everyone on this committee can likely agree upon: the importance and value in reforming our tax code. Of course doing so will be a significant undertaking and the devil will be in the details, but successful tax reform that simplifies the code will give small businesses greater certainty and allow them to spend their time and resources on what they do best: launching new products and creating new jobs in their local communities. There have been areas of progress that suggest we may be able to find other common ground in reforming the tax code.

This committee was particularly supportive of making permanent a number of tax extenders such as the R&D tax credit in section 179 expensing. Making this change permanent gave small businesses the certainty that they will be able to utilize these provisions in coming years allowing them to plan for the future. As we

look forward there are areas that I hope tax reform will eventually tackle. As just one example, many small businesses struggle to track and comply with different state tax laws. With employees who travel to multiple states this can create a tangle of different rules to contend with. Likewise the proliferation of online sales has raised issues about sales tax concerns.

Bringing uniformity to these rules could help small firms and self-employed harness the Internet to reach new customers and markets. Mr. Chairman, I think all of us on both sides of the aisle and the commissioner understand the vast array of tax compliance challenges facing entrepreneurs. The difficulty for us will be identifying valuable solutions we can all get behind and implement. This will not be an easy task but I do hope there is room down the road for cooperation and progress. In that regard I thank the witness greatly for testifying and adding his perspective to this conversation. I yield back.

Chairman CHABOT. Thank you, the gentlelady yields back and if members have opening statements prepared we asked that they be submitted for the record. Mr. Commissioner, I would like to explain very briefly our rules relative to timing. You get 5 minutes, we get 5 minutes. There is a lighting system. The yellow light lets you know that you have a minute to wrap up and at the red light you are supposed to stop, but since we have one witness, if need a little extra time we would be more generous than normal, so we are happy if you do have a little bit more to say. I would now like to introduce our principal and only witness here this afternoon.

We are pleased to be joined by the IRS Commissioner John Koskinen. Mr. Koskinen is the 48th Commissioner of the IRS. He began his tenure in December 2013, and his term expires in November 2017. Prior to his most recent government service Mr. Koskinen joined the Palmieri Company which specialized in turnaround management and served as the president and CEO. He also served as the non-executive chairman of the board for Freddy Mac. He was deputy mayor and city administrator for the District of Columbia and earlier he was deputy director for management at the Office of Management and Budget.

Perhaps most importantly he has an Ohio connection having been, I believe, born in Cleveland, and his first job I believe was with the Cleveland News, not running the paper but delivering it, and he has that in common with our director of this Committee, Mr. Kevin Fitzpatrick, although his first job was delivering for the Cleveland Plain Dealers. Mr. Koskinen holds a B.A. in physics from Duke University and a law degree from Yale, and we are very honored to have you here today, and you are recognized for 5 minutes.

STATEMENT OF JOHN KOSKINEN, COMMISSIONER, INTERNAL REVENUE SERVICE

Mr. KOSKINEN. Thanks very much Chairman Chabot, Ranking Member Velázquez, and members of the Committee. I appreciate the opportunity to discuss with you the IRS's ongoing efforts in the area of small business tax simplification. The IRS recognizes the critical role small businesses play in our country as engines of economic growth and we want to do our part to help them flourish. We do not have a direct role in tax law simplification since tax pol-

icy is the domain of the Congress, White House, and Treasury Department, but the IRS can and does contribute to tax simplification in important ways. They include simplifying tax forms and notices, streamlining policies and procedures, providing regulatory relief, easing recordkeeping requirements and abating penalties wherever appropriate.

We rely on feedback from a variety of sources in the tax industry and in the small business community to help us determine what actions we can take that would be most helpful. Let me give you a few examples of recent actions we have taken to help small businesses. We have increased an expensing threshold so small businesses can take immediate deductions on more items they buy for business and avoid having to expense these items over many years. This was in response to feedback that the old threshold was too low to allow for things like personal computers, smart phones, and machinery and equipment parts.

We set up a voluntary compliance program offering penalty relief to certain small business owners who failed to file annual retirement plan returns after we found that many owners did not realize they had a filing requirement. We streamlined the process for small organizations applying for tax exempt status creating a 3-page application they can use instead of the full 26-page application.

We developed a simplified method for claiming the home office deduction to make it possible for more home-based businesses to take advantage of that tax break. While the IRS works to provide top-quality service to small business taxpayers, we also must carry out a robust enforcement program. Enforcing the tax laws helps maintain a level playing field for all businesses. It ensures that small business owners who comply with the law and pay the taxes they owe are not disadvantaged by others who may be cutting corners.

One major focus of our enforcement efforts involves employment taxes. In many cases actions taken to improve enforcement can also help taxpayers and increase voluntary compliance. An excellent example is our new employment tax Early Interaction Initiative which was launched last December. Under this initiative we identify employers who appear to be falling behind on their employment tax obligations and offer them helpful information and guidance. That way the problem can be corrected before unpaid taxes accumulate and we have to assess penalties.

We are also working to make sure that small business owners are not defrauded when they outsource their tax obligations. While most of these providers do a good job, businesses sometimes can fall prey to unscrupulous providers that have absconded with their payroll tax deposits. We continually look for ways to protect employers from these criminals and to provide assistance when fraud does occur.

Our efforts to continue assisting small business taxpayers are challenged by the difficult budget environment we are in. The IRS's funding was cut significantly for the 5 years from 2011 to 2015, and those reductions have taken a toll in both taxpayer service and enforcement programs.

Therefore, we urge the Congress to approve the President's fiscal 2017 budget for the IRS which requests an increase of about a billion dollars over 2016, which would bring the agency's funding back up to the level of almost 7 years ago and would help the IRS across a wide range of tax enforcement and tax service categories.

Along with providing adequate funding Congress also has another important role to play by passing proposals to simplify tax administration for small business. The President's fiscal 2017 budget has a number of proposals in this area. These include increasing the section 179 expensing limit, allowing new businesses to deduct more start-up costs and improving the small businesses' healthcare tax credit. Chairman Chabot, Ranking Member Velázquez, members of the Committee, this concludes my statement and I would be happy to answer your questions and yield back my 28 seconds.

Chairman CHABOT. Excellent, well done. I will recognize myself for 5 minutes. Last May, the IRS discovered a data breach that exposed the data from approximately 700,000 accounts. What has the IRS done since that time to secure taxpayer data, and how can small businesses be assured going forward that their data is safe with the IRS?

Mr. KOSKINEN. The application that was accessed was our Get Transcript application, which allowed taxpayers to get copies of previous years' tax returns. So the access was not into our basic database so that basic taxpayer information was not let go. What it represented was a problem we have of identity theft—dealing with increasingly sophisticated criminal syndicates around the world who had information already, not from the IRS, that allowed them to masquerade as the taxpayer.

They knew Social Security numbers, names, addresses, and they could answer successfully, in some of the cases, answer their out-of-wallet questions that the taxpayer should have been the only one who knew. So we took the application down and we are testing now a much more secure application to protect that application in our ongoing "Future State," as we call it, as people deal with us more and more online.

It is the same challenge financial institutions have. The challenge we have is as you get the protection better to keep criminals out it makes it more difficult for taxpayers to get in. Even under the old system 22 percent of taxpayers could not answer their out-of-wallet questions and get access online to their transcript. But we are concerned about it for small businesses as well as individuals. A lot of small businesses really file as individuals and we think that as we try to give people better service so that when they would like to they can deal with us online, we need to make sure that that is secure. We need to have taxpayers feel comfortable that the data and the information they provide us is going to be protected.

Chairman CHABOT. Were you able to determine who the people were that were able to hack in there?

Mr. KOSKINEN. These were clearly, as we tracked them down, criminal syndicates from foreign countries, primarily Eastern Europe. Our systems get attacked and I have asked our CTO if this is the right number and he said it is actually worse than that. We

have a million attacks a day on our system, trying to probe and get into it, and in one of the systems where we caught people trying as we shut them down, you could see the attacks move from country to country. So it is a much more sophisticated enemy than we have ever had to deal with before.

Chairman CHABOT. Thank you. Can you tell us about the Future State and how it will help small businesses comply with the Tax Code?

Mr. KOSKINEN. We have been working toward the Future State for the last 10 or 12 years but we have pulled it together now in that framework of the Future State.

In the Future State, what we say is, “what should the taxpayer experience be?” Rather than looking at it from our standpoint, what should the taxpayer—what can we do to help taxpayers? And again, it is focused on primarily individuals in small businesses filing as individuals. And the goal is our surveys show the vast majority of taxpayers would rather deal with us online than have to call or show up in person.

And so the goal is to move as many of our interactions with taxpayers as we can into an online relationship, much like the online relationship you have with your financial institution and your bank today where people pay bills online and they make transactions online. So for small businesses especially it would be possible for them not only to file online but if we had questions or issues we would be able to send them a secure message, they could make the correction without having to file an amended return and it would be much more efficient for them. But I would stress we recognize we have an obligation to all taxpayers and there will always be some taxpayers who either do not have access to online digital equipment or who are not comfortable online, who will want to deal with us on the phone and in person, and so we will always provide those services. But as I say, if we can get people off the phone who would rather not be on the phone, then our phone service and our in-person service will be that much better.

Chairman CHABOT. Thank you. I think I have time for one more question. You mentioned in your written testimony the tension between providing taxpayer service and tax liability enforcement. What specific steps are you taking to work with small businesses constructively earlier in the process to ensure voluntary compliance rather than having to resort to enforcement action?

Mr. KOSKINEN. We spend a significant amount, probably if I had somebody add it up for me, we spend about 40 percent of our budget trying to help taxpayers, provide taxpayer service because the vast majority of taxpayers want to be compliant. So the message we are trying to put out is that if you are trying to be compliant we really want to work with you. You do not have to hire somebody off late-night TV to deal with us. If you are trying to be compliant we have online installment agreements, we have offers in compromise, and we have a lot of different ways to try to help people be compliant and especially those who are having difficulties. As I said on our tax deposit initiative it is designed to consult with small businesses before they get farther behind because oftentimes, when it is tempting if you are having trouble to say, well, I will hold off on my federal tax deposit until later, well, if you hold off

too long, the number gets to be far beyond what you can control. So it is kind of a combination of enforcement and taxpayer service.

Our thought was in this pilot we are now trying to say if we reach out to you quickly and say you should be careful because it is going to get to be more of a problem. Even though we usually do not talk to you until the end of the year, our experience is that taxpayers will then make sure they are paying attention to it and we will be able to nip it in the bud, and so they will not have a compliance problem. So wherever we can it is in our interest and I think in the taxpayer's interest to try to figure out how can we make it as easy and straightforward as possible for people to figure out what they owe and how to pay it.

Chairman CHABOT. Thank you very much. My time has expired. The ranking member gentlelady from New York, Ms. Velázquez, is recognized for 5 minutes.

Ms. VELAZQUEZ. Thank you, Mr. Chairman. Commissioner, this morning we heard from a small business about the complexity of the tax forms and he suggested the forms be written in plain language so that any small business taxpayer can understand. Is the IRS considering any such changes to forms or a way to help translate forms for taxpayers?

Mr. KOSKINEN. Going back to my last answer it is a critical part of what we do. I say having only been here for about 2-1/2 years, if you go back about 5 years and look at our website, it was a terrific website if you were a lawyer and liked to read tax regulations. It did not help you very much if you were someone trying to find answers. So we have written and have continued to rewrite the vast amount of information on that website.

We actually won a plain writing award a couple of years ago because we do feel that that is a fair comment, that wherever we can, we sometimes have to get the lawyers out of the way. We need to be able to write the forms and instructions in a language that the average person can understand so they can be compliant.

Ms. VELAZQUEZ. Have you taken any steps to gather input from these stakeholders regarding online self help?

Mr. KOSKINEN. Actually we do surveys as the Restructuring Act of 1998 requires us to do, surveys of taxpayers, but we also meet regularly with the Chamber of Commerce, the National Federation of Independent Businesses, and others to try to get their views of what are the biggest obstacles they are facing, what is it we could do to be more helpful. Again, increasingly more and more individuals and companies are doing their business online, and to the extent that they could deal with us online and file taxes and communicate with us, the feedback we get from them is it would be much better for them if we could do more of that.

Ms. VELAZQUEZ. In its 2015 Report to Congress, the Taxpayers Advocate highlighted the need to bring taxpayer service to the small business owner. It found that the needs of populations that are geographically clustered in certain regions are often neglected due to the more centralized structure of the IRS. In fact, the report pointed out that there is no outreach staff dedicated to small business and self-employed taxpayers in 13 states and D.C. Does the IRS have any immediate plans to provide increased local assistance for these types of small businesses?

Mr. KOSKINEN. Yes, we think again one of the advantages of developing more and more online services for taxpayers is that it will make it easier for them wherever they are. We are also developing virtual service delivery, so in areas where we do not have a walk-in center we are talking preliminarily with the Social Security Administration, which has offices all around where you could go in and, with a television monitor, you could actually, sort of like Skype, talk with an IRS person, person-to-person, even if they are not physically there.

Ms. VELAZQUEZ. What about those who have no access online?

Mr. KOSKINEN. If they do not have any, the virtual service delivery does not require online. Actually you would go to the office and you would actually communicate directly with an IRS employee who could answer your questions and provide you service. The fact that they were not sitting there physically with you would not make much difference because you would be talking with them wherever they happened to be located. We think that technology would be available to people in rural areas and areas that otherwise are underserved.

Ms. VELAZQUEZ. Okay, the IRS budget has been cut by 18 percent since 2010, which in turn weakens your ability to provide customer assistance and collect critical revenue. In cutting the budget some experts claim the government is foregoing more than \$5 billion each year. How could an adequate budget improve small business taxpayers' compliance?

Mr. KOSKINEN. Well, an adequate budget—first of all, our taxpayer service this year is much better than last year as a result of the additional funding, we appreciate, we got from Congress and I think it demonstrates the algorithm if we had more funds, the service would get better. On the same side, on the enforcement side, we are down about 5,000 revenue agents, officers, and criminal investigators since 2010. If you have 5,000 fewer people you are going to do fewer audits. On the one hand, some people say that would be fine, but if you are a legitimate taxpayer and you are a legitimate small businessman, if your competitor is not paying their taxes, they are going to offer services or goods at a lower price and they will have an unfair competitive advantage.

So everybody has a stake in the taxpaying public in having a fair system where everyone pays their fair share. So enforcement we think is an important support for legitimate taxpayers and legitimate small businesses.

Chairman CHABOT. The gentlelady yields back. The gentleman from Virginia, Mr. Brat, is recognized for 5 minutes.

Mr. BRAT. Thank you, Mr. Koskinen. I ran on what is called the Republican Creed down in Virginia. One of the points in the creed is I promise to ensure that everyone gets equal treatment under the law, and we are a Nation of laws that try to be fair to each individual and so this is just a positive question. I know you are in the hot seat, but do we have a tax system that treats individuals fairly as individuals under the law?

Mr. KOSKINEN. I think we do. One of our highest commitments is to, in fact, make sure that everybody is treated fairly. As I have said, people need to feel comfortable that if they hear from us it is because of something in their return. We have no interest in

what party they belong to, who they voted for, what meeting they went to. The system needs to be fair in terms of its application. It is a policy matter, but also for tax administration it is critical to the system for people to feel comfortable.

Mr. BRAT. That is great and so it is at the system level, I see what you are saying, procedurally there is fairness. And this is, you said, Treasury and the Congress who are responsible for the Tax Code. Do you think that individuals are being treated that way? Kind of the Warren Buffett story, right? The different taxes different people pay, depending on different sometimes minute circumstances with vastly different tax payments, do you think we can do a better job at creating a fair system in that sense?

Mr. KOSKINEN. With my caveat that it is not our domain. Usually when I say it is somebody else's responsibility I am about to talk to you about it. I do think, first, simplification would be a great gain for everyone, including the IRS, but certainly for taxpayers and small business. I think the point that people have made is on occasion we pass tax laws and do not understand the impact of them, and so it may be a perfectly good law for a large corporation and create a lot of problems administratively or burden-wise for smaller corporations and individuals. So to that extent I think it is important to try to understand the implication of the Tax Code and, as I say, what works for General Motors may not work for the corner grocer.

Mr. BRAT. Lastly, I just received an email earlier and I guess yesterday on the Senate side in response to some questions you had in the Finance Committee. Someone pressed you on an issue and you replied. And let me know if this is accurate because I want to figure this out because it has to do with fairness, too, under the law. What happens in these situations is someone is using a Social Security number to get a job, but they are filing their tax return with their taxpayer identification number. What that means, you said, is that they are undocumented aliens. They are paying taxes, it is in everyone's interest to have them pay the taxes they owe. As long as the information is being used only to fraudulently obtain jobs, Koskinen said rather than to claim false tax returns the agency has an interest in helping them. Can you help clarify that? That is what I'm trying to get to, equal treatment under the law here. If folks are here illegally, I get that you want to collect tax revenues and I applaud that aspect, but should any agency go along with what it knows to be illegal activity?

Mr. KOSKINEN. Our responsibility is to the administration of the Tax Code and it has been made clear. And not everybody who has an ITIN as it is called is an illegal alien and for some reason they cannot get a Social Security number. And so the Tax Code is set up and our enforcement is that people who are earning money have an obligation to pay taxes. And we do everything we can to make sure they pay those taxes to the extent that they get employment because they have borrowed or somehow gotten a Social Security number, that is not an issue we have jurisdiction over.

In other words, our responsibility is to make sure they pay their taxes. We have Social Security and immigration authorities and others who enforce that part of the law, and if we start looking be-

hind the system and doing their job for them, we are going to discourage a lot of people from paying the taxes they owe.

And so as I said, the division of responsibility that is our job is to make sure people pay the taxes they owe from the earnings they have had. To the extent that they are here under circumstances that do not meet the immigration laws or do not correspond with Social Security Administration, it is really those agencies job to pursue that.

Mr. BRAT. You would never pursue the course if you knew you had someone engaging in illegal activity, if you knew that you would not pursue trying to gather tax revenues just for the sake of pure economics over the rule of law?

Mr. KOSKINEN. No, that is exactly right. Although you will recall the famous case of Al Capone who was actually brought up on tax charges, not on all of his criminal activity, so ultimately the IRS's basic responsibility is collection of taxes. We actually chase people and cooperate with justice and drug enforcement and everybody else on people who are engaged in illegal activities.

Mr. BRAT. Great, thank you, my time has expired.

Chairman CHABOT. When you hear Al Capone's name, we appreciate that. The gentlelady from California, Ms. Hahn, is recognized for 5 minutes.

Ms. HAHN. Thank you, Chairman Chabot, Ranking Member Velázquez, for holding this hearing. Tax day certainly is fast approaching and I cannot speak for everyone here, but I know my office, particularly in my district, we get requests for help with taxes around this time every year and we actually hold workshops to help individuals and small business owners complete their tax forms. It should come as no surprise that what I hear from people is that the Tax Code is too confusing, which, as you said, is Congress' job to reform the Tax Code, not yours.

But what is especially upsetting to me is when I hear that my constituents try to comply and reach out to the IRS to resolve their issues they often cannot even get ahold of someone over the phone, it takes weeks for them to get a response in the mail, which is why they usually come to members of Congress. This feels like it could be something that is your responsibility and that you could really work on because obviously involuntary mistakes for people can lead to major penalties and consequences. Additionally, many individuals and small business rely on returns to pay for their day-to-day cost and cannot afford to wait. Some businesses have fewer resources and already spend more than twice as much per employee to comply with the Tax Code than larger firms. They deserve to receive help easily and directly from the IRS. Despite these trends Congress has continued to cut funding for the IRS, and that is where I think it really does not make sense.

So, Commissioner, I do believe, again, and I think Congress should and it has a responsibility to simplify the Tax Code. At the same time, we should ensure that the IRS has the proper funding to make sure that small business owners receive the service they need to file taxes. Last year Congress provided the IRS with an additional 290 million in funding for fighting fraud and taxpayer services, and as a result we have seen wait times improve this tax season over previous years.

However, last month in your annual National Press Club speech you said that only 47 percent who call your agency this year will get through to a live person. The IRS small business and self-employed tax center page provides resources but I worry that because of the complexity of the types of taxes or credits that small businesses may qualify for, reading and watching videos online may not be enough for many people. I want to make sure that when a small business from my district, the business and specialty tax line, they will be able to speak to someone.

So is it possible to achieve that goal with the resources that you have been given, the goal being that everyone, in a reasonable amount of time, could speak to a live person to help resolve their issues? And if not, how much funding and staff would the IRS need in order to ensure that all callers will be able to speak to a live representative in a reasonable amount of time? Is the President's request enough to make that happen? I know we are moving to online and we are trying to get more people, there are so many people in my district that just are not there yet, and I really would hope that we could accommodate those who still use the old-fashioned method of calling.

Mr. KOSKINEN. Well, I hope we are able to establish that with the additional funding this year. Of the 290 million, we put 178 million of it into taxpayer service and that was primarily hiring over a thousand people in the filing season to answer the phones. So during this filing season the level of service is about 72 or 73 percent, so it is almost twice what it was during the last filing season. The problem the way we get the 47 percent for the year is that at the end of filing season the money is going to run out for paying those people and plus we did not have any money at the first 3 months. So the average for the year will be 47 percent, still a significant increase above 37 percent last year.

But during the filing season we marshaled all of that funding so we would actually provide as much service as we could. The President's budget for 2017 provides another—

Ms. HAHN. What do you consider—how many months?

Mr. KOSKINEN. Filing season is basically January to the end of April.

Ms. HAHN. Okay.

Mr. KOSKINEN. So the President's budget provides for \$130 million additional for taxpayer service next year, which would get us to a level of 70 percent for the year. Now, what we finally refer to as the good old days in the mid 2000's, our level of service was 80 percent and we think at some point we should be—you do not want to be at 100 because then you have people sitting around waiting, but we ought to be as we used to be, in the 80 to 85 percent level and you should only spend a minute or two waiting to get an answer. But if we could get the President's 2017 budget in this area, having 70 percent for the year would mean we would probably be able to be 80 percent during the filing season.

Ms. HAHN. Okay, thank you very much.

Chairman CHABOT. Thank you very much. The gentlelady's time has expired.

Gentlelady from American Samoa, Ms. Radewagen, who is the chairwoman of the Subcommittee on Health and Technology, is recognized for 5 minutes.

Mrs. RADEWAGER. Thank you, Mr. Chairman, and I, too, would like to welcome you, Commissioner. This morning we heard that many small businesses self censor and do not claim the research and experimentation or indeed tax credit even though they may qualify for it. Two years ago, IRS made an improvement to the regulations to allow small businesses to claim the alternative simplified credit or ASC on an amended return. Are you aware of any changes of this type that could be made to improve the credit's availability to small businesses?

Mr. KOSKINEN. I am not, although we continue to look at it. I think again it is one of those situations where the credit itself everyone thinks is very valuable, but it is a lot easier for a large corporation to work its way through the requirements than it is for a smaller corporation. So one of the issues is whether there is a way to have a broader sort of safe harbor, much as we did with the expensing regulations and the capitalization issues where we went from a \$500 safe harbor to \$2,500. One of the legislative proposals we have would be to allow start-up costs to have effective broader safe harbors. So I think for small businesses the answer would be to see if we could not get a broader safe harbor where you would be able to actually take that deduction without going through all the complications.

Mrs. RADEWAGER. I see. As a follow-up, can these improvements carry over to the U.S. territories and are you aware of any other credits that are available to the small businesses in the U.S. territories but not being utilized?

Mr. KOSKINEN. You have now gone beyond my level of expertise. I would be delighted to get back to you with an answer of how the credits apply in the territories and are there areas where small businesses in the territories are not taking advantage of them.

Mrs. RADEWAGER. Thank you. And lastly, we understand from this morning's testimony that many small businesses do not claim section 199 domestic manufacturing deduction despite being eligible. Do you have any ideas about how to improve the compliance burden to make this benefit administratively easier to claim?

Mr. KOSKINEN. We have looked at that. In fact, one of our legislative proposals would be doing that, but we have already made some improvements in the ability to take that deduction by simplifying it actually in the last year. And so we are waiting to see how that works, but, again, with the feedback we get from business groups, if they think that the changes we have made need to be improved, we would be delighted to hear from them and take another look at it.

Mrs. RADEWAGER. Thank you, Mr. Chairman. I yield back.

Chairman CHABOT. Thank you. The gentlelady yields back. The gentlelady from Michigan, Ms. Lawrence, is recognized for 5 minutes.

Ms. LAWRENCE. Thank you, Commissioner, for being here today. My question is twofold, but it is the same area of concern. Each year there is numerous tax scams and many targeted small business owners because they are more vulnerable. The IRS tries

to do their part by releasing their annual lists of the “dirty dozen,” they call them, tax schemes, but I am not sure for small business and for women-owned businesses and those minority-owned businesses if it is enough.

To kind of tap into my next concern is that when we look at the startups and those new businesses I just always think that there is more that we should be doing. Tell me what is your plan or your vision to make sure that those businesses that are not sophisticated, the startups, the minority, and the women are getting the actual resources that they need and not just the standard list of the dirty dozen?

Mr. KOSKINEN. With regard to our outreach and advice to small businesses, we have a continually, I think, improving section on the website, and, in fact, one newspaper recently said it was the best place for somebody to go to if they were going to start a business because it gives you advice about how to start a business. Not only what the tax implications are, but what it takes to get organized, what kind of records you need to have, on how you should deal with the IRS.

With regard to the tax scams, they continue to be a problem for us. We are most concerned at this point about phone scams that affect a lot of small businesses as they are individually owned and those are threatening calls from somebody claiming to be from the IRS, saying if you do not pay your taxes immediately, you owe money, and we are going to throw you in jail, seize your business.

And we have spent 2 years working with the press, working with our partners around the country trying to get everybody to understand kind of a relatively straightforward symbol: If you are surprised to be hearing from us, you are probably not hearing from us. So if you have not gotten a notice or you do not have some other reason to expect a call, then it is not a call from us.

The second thing we want people to understand is we would never—it is never part of our policy to threaten anyone that they will get arrested, they will go to jail, and that anything is going to happen in the next 24 hours if they do not respond.

The third most important thing is if you are going to pay taxes, you write the check to the United States Treasury. You do not put the money in a debit card, you do not put the money in some bank account somewhere, you write a check to the United States Treasury. And I think as we keep pushing this out, if we can get more people to understand that we will protect them, but it is a low cost of entry scam. People have phone numbers and they just robodial them and then they, a lot of times, have a 202 area code so it looks like it is coming from IRS headquarters. We are concerned about it, we have worked with the Inspector General to track it and our goal is to try to, in fact, protect people to the extent that we can.

Mrs. RADEWAGER. If I could just add this and it kind of goes back to what my colleague said, I have numerous small business forums in my district and when I bring in the small businesses I have all the usual suspects there. I have never had the IRS in one of my small business forums. It is such a critical part of the successes of the small businesses knowing how to pay their taxes and have the resources. So with that being said, I will invite you to our next one.

Mr. KOSKINEN. Invite us, whether I can come personally, I think you are exactly right, we should be there. It is a great outreach.

Mrs. RADEWAGER. You should be there and to transform the position of the IRS from the person that comes to get you to the resource that you need to be successful is a challenge that I feel we need. A lot of times people are ignorant because they are so intimidated by the IRS because if I ask a question they are going to come back and get me. I think the transformation that I hear from you and that the agency is taking steps to provide information to make sure that people can reach compliance in their taxpaying responsibilities, I think we could do a better job.

Mr. KOSKINEN. I could not agree more and, on the one hand, it is important for people to know that if you are cutting corners and trying to cheat, we are not going to be happy and we will track you down. But, on the other hand, as I said, if you are trying to be compliant, while it may take me awhile to convince people we are from the IRS and we are here to help you, people need to understand we really do spend a lot of time and have a lot of people dedicated to trying to make it as easy as possible for people to be compliant. So I think you are exactly right. If we could get people to understand that there are two sides of our job, but it is all designed to try to create a fair tax system where everybody pays what they owe. Nobody wants to pay more than they have to, but where everybody is paying everything that they ought to.

Mrs. RADEWAGER. Thank you for that. I will be calling your office.

Mr. KOSKINEN. Okay.

Chairman CHABOT. Thank you, the gentlelady's time has expired. The gentleman from Florida, Mr. Curbelo, who is chairman of the Subcommittee on Agriculture, Energy and Trade, is recognized for 5 minutes.

Mr. CURBELO. Thank you, Mr. Chairman, for this opportunity, and thank you, Commissioner, for your testimony and for being here today. You mentioned fraud and we have discussed it extensively here. I wanted to ask you how are you balancing this issue of suppressing fraudulent refund payments and, at the same time, doing your best to ensure that those validly overwhelming majority of refund claims are paid expeditiously? Has this been difficult given the growing level of sophistication of some of these criminals that are presenting false claims?

Mr. KOSKINEN. It is. I think one of the things that is going to happen is that on the online authentication to get online responses from us, you will have to meet a higher threshold of authentication and we expect that that means more will not get through. We will still mail you transcripts, we will mail you information, but it will take you a few days longer. One of the best things we have done is, a year ago, as this problem continued to become more complicated, I brought together the CEOs of the major tax preparers, H&R Block, Intuit, and others, the software developers, payroll providers, and the tax administrators and commissioners from the States. I told them that the reason for this meeting was not for me to tell them what to do. The reason was to create a real partnership between the private sector, the States, and the IRS to deal

with fraud and identity theft and refund fraud. It has been very successful.

In fact, it is interesting to me the most enthusiastic participants are the private sector members who went beyond asking and began to sort of request and demand that we make it permanent, which we are doing. Because what it allows us all to do, the States, tax preparers, and the software developers and us, is exchange information in real time during the tax season, which we have done this year, which allows us to spot suspicious patterns of activity much earlier, but it also allows us to develop more and more sophisticated filters and authentication.

So this year I was told by one of the preparers, well, you, the IRS, have to set standards. And I said, well, I am happy to set the standards if you help design because I do not want to tell you what to do. So this year everyone who used software or everyone who went to a preparer had a higher level of authentication than they had last year set by the industry. All of the industry participants have agreed to a higher level of security. Many of them were already at that level, so we would have a standard level of security.

We have 40 states who are cooperating with us and so our goal is, as I told them, the reason for creating that partnership was because no one of us can solve this problem on our own and it has been a great example of what happens if you get a public-private partnership where it is a real partnership of what you can accomplish.

And so I think the most significant step forward we are going to be able to make is taking what we call the entire tax ecosystem, from the time you actually use the software or use a preparer until the time you file, and we are now working with financial institutions, that the time the refund is deposited, if we can have that entire circle sharing information, tracking down criminals, it will allow us to, in fact, let legitimate taxpayers through with more security.

A big step forward and, again, I appreciate the support from Congress, is the requirement that goes into effect next year that we get W-2s at the same time the employees do. Historically, we have not gotten the W-2s until March or April, well after the time refunds go out. It will allow us to detect fraud, but also it allows us to detect legitimate taxpayers. Last year we stopped over 4 million suspicious returns about—of the 150 million. Well, a chunk of those, about a million and a half, were clearly fraudulent and where about \$8 billion of refunds were stopped, but obviously a couple million were legitimate taxpayers. Getting the W-2s earlier will allow us to authenticate taxpayers so many of them will not be delayed very much in their refunds at all, but it is sort of a complicated picture, but I think we are making progress.

Mr. CURBELO. I thank you and I also want to commend you on really trying to change the perception and perhaps the culture of the agency making it more approachable so that people feel comfortable knowing that the IRS is actually going to help them file their taxes as opposed to somehow get them in trouble or confuse them or discriminate against them.

So I certainly do commend you for that because, as you know, many small business owners, many individual filers feel like they

have to hire someone just because they do not feel the agency is approachable just because they are paranoid, they are scared. So I certainly commend you on your work to change that. Thank you, Mr. Chairman, I yield back.

Chairman CHABOT. Thank you, the gentleman yields back. The gentlelady from North Carolina, Ms. Adams, who is the ranking member of the Subcommittee on Investigations, Oversight and Regulations, is recognized for 5 minutes.

Ms. ADAMS. Thank you, Mr. Chairman, and thank you, Ranking Member Velázquez, and, Commissioner, thank you so much for your testimony and for being here. I just have a couple of questions. You talked a little bit about scams. How do you educate companies about them and help them recover if they are victimized by that?

Mr. KOSKINEN. As I said regularly putting out notices, releases—one of the advantages of the partnership just talked about is we now have direct access to all the tax preparers in all the States, so we share all of those concerns. They then publicize them.

We had a big meeting last September, talking about taxpayer protection with the States and the private sector. I have been struck by the phone scams' persistence because for the last 2 years, every press availability I have had, we have talked about if you are surprised to be hearing from us, you are probably not hearing from us. We have coverage locally, nationally across the country. We have started to arrest people, which gets some visibility, and I am still dismayed at the number of people who actually fall for the scam.

It is a declining percentage, but the Inspector General works with us and tracks it and each week we get reports of 15- to 18,000 reporting that they have gotten one of these calls and that is just obviously the tip of the iceberg. So I think it is why we keep putting out the dirty dozen list, we keep putting out warnings.

We have been putting out warnings this year. We learned from one of our partners that one of the latest scams is what appears to be an email from the CEO of an organization, goes to the payroll department that says I need the information on our employees, their Social Security numbers, and it turns out that is not an email from the CEO, it is an email from a criminal.

Ms. ADAMS. Wow, I get calls occasionally that the IRS says that we are having all these break-ins in my neighborhood, trying to sell me security. But thank you for your comments. So what procedures are you using to operate overall more efficiently?

Mr. KOSKINEN. Well, what we have done, especially in light of the fact that we have 10 million more taxpayers and a billion dollars less in funds, so we have no choice but to try and prioritize and become more effective and efficient. We are responding to the taxpayers' request that we provide more digital services, but obviously it is in our interest to do that as well. It costs \$40 to \$60 for us to answer a phone call or deal with someone in person. It costs well less than a dollar to give them the same information online. So to the extent that we can be more efficient and convenient for taxpayers it actually makes us more efficient.

On the Get Transcript App that was accessed last filing season, over 7 million taxpayers downloaded 23 million tax returns online.

Those people used to have to call. We have an app called “Where is My Refund” that thus far this tax season has 250 million hits on it. Now, we do not have 250 million taxpayers, some of them just love to push the button and find out how their refund is doing. But even if it is only 30 or 40 million taxpayers those people used to have to call to find out the status of their refund. So to the extent that we can meet taxpayers’ expectations it also makes us more efficient.

Ms. ADAMS. So I do have until Monday to file my taxes?

Mr. KOSKINEN. You do have until Monday. It is Emancipation Day in the District on Friday, so everybody gets until Monday.

Ms. ADAMS. Okay, I just wanted to verify that. Mr. Chairman, I am going to yield back.

Chairman CHABOT. The gentleman from Missouri, Mr. Luetkemeyer, who is vice chairman of the Full Committee, is recognized for 5 minutes.

Mr. LUETKEMEYER. Thank you, Mr. Chairman. Welcome, Commissioner. I have a couple of quick questions for you. With regard to the GAO study that was done recently, my understanding is there were 211 recommendations that are currently open with 11 being designated as the highest priority. Can you elaborate on that a little bit in where we are and find some solutions to those problems?

Mr. KOSKINEN. As the chairman gave my background, I spent 3 years chairing the intergovernmental agency for Inspectors General and in the private sector I thought internal auditors were your best friends. So I am a very strong supporter—

Mr. LUETKEMEYER. As somebody who is a former bank examiner and lived on the other side of the fence for 30 years, I am not sure I go along with that, sir, but that is okay, I know where you are coming from.

Mr. KOSKINEN. So we take very seriously their recommendations, both the IG and GAO. In fact, we have counted up, we have had over 2,000 recommendations in the last 3 or 4 years from the 2 agencies—

Mr. LUETKEMEYER. Okay, so what are we doing with them?

Mr. KOSKINEN. So what we are doing with them is we have implemented about 80 percent of those 2,000. GAO has done us a great service over the year by prioritizing them as which ones they think are the most important for us to address. Our goal is to address them all. We track them and since I have been there we have consolidated the monitoring of those because I think it is important for us to implement them.

Mr. LUETKEMEYER. Can you give an example of the top two or two of the five?

Mr. KOSKINEN. They have been working with us and, in fact, we are now—one of the things is the ability to monitor our systems in real time to monitor for—

Mr. LUETKEMEYER. How are you fixing the problem?

Mr. KOSKINEN. One of the things we have done is we have used part of the \$290 million we got this year from the Congress to acquire state-of-the-art software that allows us to increase our ability to monitor the systems in real time.

Mr. LUETKEMEYER. What is another one?

Mr. KOSKINEN. Another one is we have moved—we have identity cards that now instead of worrying about changing passwords every 90 days, one of the IG recommendations is to make sure we did that, you cannot run my computer without not only my number, but without putting this into the computer. One of the things we have been recommended to do by GAO and IG is to worry not only about our computer operations, but about our servers and access to our servers. And again, if we get some of the additional funding in the 2017 budget, we want to move to PIV cards to access to any piece of IRS IT equipment. So you could not use a piece of IT server or otherwise without having what is called a PIV card as well as a number.

Mr. LUETKEMEYER. Do you have a system in place by which you are monitoring and addressing all of these with timelines on your expectation of trying to solve these problems?

Mr. KOSKINEN. Yes.

Mr. LUETKEMEYER. What is the longest timeline you have and what is the shortest you have?

Mr. KOSKINEN. I would have to take another look at it for you but the longest timeline is probably in to next year and that is a resource-related thing. The shortest timelines—

Mr. LUETKEMEYER. So if we had you back a year and a half from now all these 200, including the high priority ones, you would hope to have them all done.

Mr. KOSKINEN. Yes. My goal is to—again, we get as you move down the list of priorities we run into resource constraints.

Mr. LUETKEMEYER. IRS has got a perception problem with the American people with regards to how you do your job. In my district there is a city named Jefferson City. It is the capital city of Missouri, and there is not another office within 120 miles that is staffed by an IRS person. The Jefferson City office only has one person in it. And during the time period from January 25 to February 12 nobody was in the office. The notice on the window said that they were going off for training. That is wonderful, the staff has to be trained, but you train them in the middle of the season and then not leave the office occupied by somebody that can help. And we wrote to you about this and you sent back a letter, which is fine and you explained that you can go online and get some of the questions answered, but by your own admission over 50 percent of the calls do not get through.

Mr. KOSKINEN. Now we are up to 70 percent getting through, but we are doing better. You are right we should not train people in the middle of filing season.

Mr. LUETKEMEYER. It certainly has a perception problem for you. There is a lot of discussion with regards to the flat tax. I realize that is a policy decision, but from the standpoint of the IRS and being able to implement a flat tax, how much would it save you from people being hired and the money being expended because of the simplification of that would you estimate that it would help your budget problem here?

Mr. KOSKINEN. I do not think I have a number for you but clearly if you had a two-page form or a one-page form where you got rid of all the deductions and everything else, people just paid in effect either a flat tax or a graduated flat tax, it would be sim-

pler for taxpayers and it would be much simpler for us. Somebody would have to make sure that the numbers are right and we have to follow up with people, we have to answer questions, but there would be far fewer questions.

Mr. LUETKEMEYER. What is the total budget that you have for the IRS?

Mr. KOSKINEN. The total budget this year is \$11.2 billion.

Mr. LUETKEMEYER. Can you give me a percentage of what you would anticipate saving of the 11.2 if you went to a flat tax?

Mr. KOSKINEN. I have not looked at the numbers but we would save a lot.

Mr. LUETKEMEYER. Thank you, Mr. Commissioner.

Chairman CHABOT. Thank you, the gentleman's time has expired. The gentleman from Kansas, Mr. Huelskamp, who is the chairman of the Economic Growth Tax and Capital Access, who held the hearing this morning that the Commissioner testified before the Committee, and he is recognized for 5 minutes.

Mr. HUELSKAMP. Thank you, Mr. Chairman. I appreciate the opportunity to ask the Commissioner some questions. We had a great Subcommittee hearing this morning talking about tax simplification and how I think all of our four witnesses agreed the Tax Code was biased against small businesses and was obviously not helpful and they spent a lot more per employee per business for tax compliance than otherwise.

The one question I had for then that I direct to you, Commissioner, first of all, is what in the IRS what reassurance can we have? What process is at the IRS and here is how we look out for small businesses rather than the large corporations, who certainly have a Tax Code that they are able to understand and use, but not our smallest businesses across America?

Mr. KOSKINEN. Well, as I have noted, we have gone out of our way to develop what has been viewed as a very positive website with as much instruction in understandable language for small businesses about how to start a business, what the obligations are, how you file your return, how you are answering as many questions, and giving them as much advice in advance as to how to actually work their way through it. We put up frequently asked questions and answers. We have tax forms for preparers. We get about 10,000 preparers every summer in which we spend—and most of their clients are individuals and small businesses and we spend time with in sessions. There are three or four sessions a day. We do five of them across the country and we take their feedback as to what it is we should be providing to give them better information so they can better provide advice to their clients.

The vast majority of small businesses use preparers, so that is one way we can actually provide service. We continue to get feedback from business organizations and others as to where there are difficulties with forms, where there are areas where we could make improvements because they are a significant part of the population and we take their concerns seriously.

Mr. HUELSKAMP. I appreciate that. We heard testimony today and it has gone out that academic research as well has a significantly higher tax compliance cause for small businesses. How do we bring that down? When the tax compliance costs us three, four,

five, six, seven, eight times I mean, there are certain tax credits, certain things they are not going to do, not going to take that the largest corporations with a whole assembly of tax lawyers and accountants to take care of it. How do we make certain they get a fair shake in that system? I understand taking input, but at the end of the day it is still not working for them.

Mr. KOSKINEN. No. I think as we discussed a little earlier, but briefly, and let me just elaborate, I think from the standpoint of the Tax Code and tax laws when we pass those we need to pay more attention to the impact on small businesses. One of the things we have done wherever we have the regulatory authority is to increase the safe harbors so that we, in fact, allow you to take deductions or not capitalize expenses without having to do a lot of complicated calculations, even change your accounting systems in a straightforward way.

We have made some proposals for instance to try to standardize the definition of small businesses because you go through the Tax Code and you are eligible and some places you are not eligible and other places it would make a helpful tax simplification there if everybody knew whatever the Code provision is, I am a small business or I am not a small business. I think if we could have more recognition of whenever a piece of legislation or a regulation even is passed, it is one thing for a large corporation like the General Motors of the world, it is another for somebody with 12 employees. If we could bear that in mind, I think we could build more cushion into the system for small organizations.

Mr. HUELSKAMP. I would encourage you to continue to develop those and simplify those for small businesses because they believe the system is loaded against them and I think they are right. A couple things, privately we visited about—Mr. Commissioner, I think about a month ago, we talked about the political activity definition which Congress has done more work on that. What do you anticipate, if we do not adopt a language that restricts your activity on that and proceeding ahead with that redefinition, what could we expect as Congress come October 1?

Mr. KOSKINEN. Well, as I have said and talked to you, we would not do anything that would surprise anyone. So we would continue to keep everybody advised. The Inspector General said that part of the problem is or focus was that the facts and circumstances in all of the examples in the regs are just too complicated. So one of the things we have made clear in our discussions with members on the Hill is that the goal is not to change the rules of the game, the goal is to try to make them clearer.

So basically it would try to make it easier for an organization to be comfortable when they apply for a determination, but, more importantly, when they are operating that they have a pretty good rule of the road and rules have been made as clear as they can and they do not have to worry about somebody looking over their shoulder after the fact, disagreeing with them because they have a different view of the facts. So the goal there would be to simplify, not make more complicated, the rules but not to change the basic fundamental way that the system has been operating since the 1950's.

Mr. HUELSKAMP. And I appreciate that. We have heard testimony from conservative groups they thought the definition was

pretty clear until about 2012, but all of the sudden it looked like they were targeted and I think there is plenty of evidence of that. One thing we did talk about that I have not got from you yet, you had identified to me and claimed IRS had fired over 1,000 individuals in the last year and I wonder if you could provide that listing on behalf of the Committee?

Mr. KOSKINEN. We will get you that answer in the next few days because we did commit we would do that for you.

Mr. HUELSKAMP. I appreciate that. Thank you, Mr. Chairman, I yield back.

Chairman CHABOT. Thank you, the gentleman yields back. I just had one final concluding question here. We had talked in my office about people getting those calls saying that you have not paid your taxes, you are going to jail unless you send this money, et cetera, and how common that was. You have already addressed that I think quite well.

The other scam that I do not think we have brought up here this afternoon is how common is it that people file their taxes and then find out that some scam artist or criminal has already filed a bogus tax return and gotten their refund and then Mr. or Mrs. Taxpayer has to go through the process to prove who they are and that they did not get it and it was some criminal that got it rather than them. Does that happen frequently?

Mr. KOSKINEN. Thus far, cumulatively, we have sent about 2.7 million IP PINs which are identity protection PINs we give to people who have been victims of identity theft. It is 5- to 600,000 taxpayers a year which, on the one hand, is small percentage of 150 million, but our sense is it is far too many in the sense that there is nothing more angst producing.

Chairman CHABOT. So you are saying a half-million it happens to each year?

Mr. KOSKINEN. Right.

Chairman CHABOT. Now, in the scheme of things that might be 1 out of 300 or so?

Mr. KOSKINEN. Yes, but, again, our view is not to minimize it for any individual taxpayer. There is nothing more anxiety producing then filing and discovering somebody has got your Social Security number and has filed in advance of you. So we continue to try, as I say, to protect taxpayers from having that happen. We have also gotten much better about streamlining our process of dealing with taxpayers.

In fact, increasingly, we are able to stop those returns before they get posted so that we can work the taxpayer through the legitimate filing of their return in a matter of a few weeks rather than several months, which was the system before.

Chairman CHABOT. And how successful have you been in actually then criminally prosecuting those individuals that have put the taxpayer into that unnecessary situation?

Mr. KOSKINEN. We have put about 2,000 people in jail thus far. We have about 1,700 investigations underway now. Part of our problem is it started out with a lot of individuals. There are still some of those in the United States and that is a lot of people put in jail. Increasingly, as I said, we are now dealing with organized

crime syndicates around the world and finding them and prosecuting them is obviously much more difficult.

So our goal there is to simply stop them to the extent we can or at least make it so difficult and complicated that it limits their ability to have an adverse impact on individual taxpayers. But I would stress our concern is if we had it down to 10, it would be 10 too many because it is a terrible thing for a taxpayer to have that happen to them.

Chairman CHABOT. If you want any advice from the chair of this Committee, throw the book at them.

Mr. KOSKINEN. Yes, we do. The courts have been good. The average sentence is about 3-1/2 years in jail.

Chairman CHABOT. Because I do think that the person who has been violated in that manner, it is probably a huge deal to them, and understandably so, so they need to be protected and we are in a position to do everything we can to try to protect them, so we appreciate your cooperation in going after those folks. We appreciate your testimony here this afternoon.

The Committee on Small Business remains dedicated to helping small businesses and their hard-working employees by reducing any unnecessary complexity in the Tax Code, and there is certainly more than ample evidence that there is that complexity. And it is our responsibility, "our" being the members and elected representatives of the American people, because we are the ones that enact the Tax Code.

It is not your fault. You enforce it, so we need to get our act together and it is our duty to identify these problems, call attention to them, and pursue appropriate solutions. And, Commissioner, we look forward to working with you in that endeavor as we move forward, so thank you for your testimony here this afternoon.

I would ask you now to consent that members have legislative days to submit statements and supporting materials for the record. Without objection, so ordered.

And if there is no further business to come before the Committee, we are adjourned.

[Whereupon, at 3:46 p.m., the Committee was adjourned.]

APPENDIX

INTRODUCTION

Chairman Chabot, Ranking Member Velázquez and Members of the Committee, thank you for the opportunity to discuss the IRS's ongoing efforts in the area of tax simplification.

Because tax law simplification requires changes in tax policy, which is the domain of Congress, the White House, and the Treasury Department, the IRS as tax administrator does not have a direct role in simplifying tax laws. We do, however, have a responsibility to make it as easy as possible for taxpayers to fulfill their tax obligations, and in that way, we can contribute to tax simplification.

Against that backdrop, the IRS recognizes the critical role played by small businesses and self-employed taxpayers in our country as engines of economic growth, and we understand the need for the IRS to do its part to ensure these businesses can flourish. While the complexity of the tax code and the limits of our constrained resources create challenges for us in this area, I can assure this Committee that the IRS is committed to doing everything possible to help small businesses and self-employed taxpayers fulfill their tax obligations.

SIMPLIFYING TAX COMPLIANCE FOR SMALL BUSINESSES

Small businesses, from sole proprietors who file Form 1040 with a Schedule C to small corporations and partnerships, must not only familiarize themselves with complex aspects of the tax code but also keep up with tax code changes, creating challenges for them in complying with the tax laws. As a result, the IRS is continually seeking ways to help these business owners in their efforts.

The compliance assistance the IRS provides to small businesses takes many forms, and includes: simplifying tax forms and notices; streamlining policies and procedures; providing regulatory relief, easing recordkeeping requirements; and voluntary compliance programs aimed at small business. We rely on feedback from a variety of sources in the tax industry and small business community to help us determine what actions we can take that would be most helpful.

Following are just a few examples of recent actions the IRS has taken to reduce burden on small businesses and help them comply with the tax laws:

Tangible Property Regulations. In February 2015, the IRS announced a simplified procedure for businesses to use to make it easier for them to apply regulations issued in 2013 governing tangible property. The regulations clarify when expenses for tangible property are deductible repairs or capital improvements. The new procedure, requested by businesses owners and tax professionals, allows small businesses to change a method of accounting under the regulations on a prospective basis. The new simplified proce-

deduction is generally available to small businesses, including sole proprietors, with assets totaling less than \$10 million or average annual gross receipts totaling \$10 million or less.

Increased Expensing Thresholds. In issuing the tangible property regulations described above, the IRS requested comment on the \$500 safe harbor threshold on amounts spent to acquire, produce or improve tangible property that would normally qualify as a capital item. The threshold can be used by businesses without an applicable financial statement, and allows them to take an immediate deduction on such expenditures rather than depreciating them over many years. Small businesses told the IRS that the \$500 threshold was too low to have its intended effect of reducing paperwork and recordkeeping requirements. In response, the IRS in November 2015 increased the threshold to \$2,500.

Voluntary Compliance Program for Certain Retirement Plan Sponsors. Since 2014, the IRS has been offering certain small business owners with unfiled retirement plan returns the opportunity to come into compliance and reduce potential penalties. The voluntary compliance program, which began as a pilot and was made permanent in 2015, is designed to help small businesses that may have been unaware of reporting requirements that apply to their plans. Businesses that fail to file required annual retirement plan returns can face stiff penalties—up to \$15,000 per return. But under this program an eligible small business that voluntarily comes into compliance pays only \$500 for each delinquent return filed, up to a maximum of \$1,500 per plan for multiple delinquent returns. The voluntary compliance program is generally open to small businesses with plans covering a 100-percent owner or the partners in a business partnership, and the owner's or partner's spouse (but no other participants), and certain foreign plans.

Streamlined Application Process for Tax-Exempt Status. The IRS created Form 1023-EZ, *Streamlined Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code*, in 2014 to give small organizations a less-cumbersome option for qualifying for tax-exempt status. Most organizations with annual revenue of \$50,000 or less and assets of \$250,000 or less are eligible to use the 1023-EZ, which is three pages long, compared with the standard 26-page Form 1023. Prior to introduction of the 1023-EZ, all organizations seeking tax-exempt status went through the same lengthy application process, regardless of size, creating delays for applicants. It now takes organizations using the 1023-EZ an average of less than two weeks to receive a determination on their application, compared to several months before the form was introduced. Use of the 1023-EZ has also helped contribute to a decline in the inventory of pending applications for tax-exempt status. Open inventory at the end of Fiscal Year (FY) 2015 was 11,616, compared with 65,719 at the end of FY 2013, a reduction of approximately 82 percent.

Home Office Deduction. In 2013, the IRS began offering taxpayers the option of using a simplified method to calculate the home office deduction, a tax break that is widely used by individ-

uals who operate home-based businesses. Normally, taxpayers claiming the deduction are required to fill out a 43-line form, Form 8829, *Expenses for Business Use of Your Home*, which often involves complex calculations of allocated expenses, depreciation and carryovers of unused deductions. Instead, taxpayers choosing the simplified method need only complete a short worksheet in the tax instructions and enter the result on their income tax return. This simplified method has substantially reduced the paperwork and recordkeeping burden for small businesses.

ENFORCING THE TAX LAWS AND ENSURING FAIR TREATMENT

Even as we seek to provide top-quality service to small business taxpayers, the IRS also must carry out a robust enforcement program. While the IRS has an obligation to make sure all individuals and businesses pay the taxes they owe, it is especially critical in the small business community, in order to maintain a level playing field for all business owners.

The enforcement activities we conduct help ensure that those small business owners who are fulfilling their tax obligations are not disadvantaged by others who may be cutting corners, whether that involves income taxes, employment taxes, or the classification of workers as employees or independent contractors.

In many cases, actions taken to improve enforcement can also help taxpayers and increase voluntary compliance. An excellent example is our new Employment Tax Early Interaction Initiative, which was launched last December.

Under this initiative, the IRS seeks to identify employers who appear to be falling behind on their interim employment tax payments before they file their annual employment tax returns. We offer helpful information and guidance through contacts such as letters and automated phone messages. In the past, the first attempt by the IRS to contact an employer having payment difficulties often did not occur until much later in the process, after unpaid tax obligations were already beginning to mount. This initiative is designed to help employers stay in compliance and avoid interest and penalty charges. This initiative can be seen as a more efficient enforcement activity or a form of improved taxpayer service, but we believe it is both.

Within the employment tax area, another important component of our efforts to ensure small businesses meet their obligations involves helping businesses that outsource some or all of their payroll and related tax duties to third-party payroll service providers (PSPs). While most PSPs do a good job of helping small businesses meet filing deadlines and deposit requirements, businesses sometimes can fall prey to unscrupulous PSPs that defraud clients and abscond with their payroll tax deposits, leaving the employer liable for amounts they thought had been remitted to the IRS but were not.

We have taken many steps to help protect employers from becoming victims of unscrupulous PSPs, and to provide assistance when fraud does occur, including the following:

- Unscrupulous PSPs sometimes change the address of their clients (without their clients' consent) to that of the PSP, so that the client never sees tax delinquency notices sent by the IRS. In 2015, the IRS began sending identical notices to both the old and new addresses on file for an employer after an address change is received.
- In 2014, we created the Inquiry Personal Identification Number (PIN), which is used by business owners who use PSPs. They can use their Inquiry PIN to access the Electronic Federal Tax Payment System (EFTPS) to check whether tax payment submissions were made timely on their behalf by their PSP. Additionally, we are working to modify the EFTPS to allow for the issuance of emails to business owners when their PSP makes or cancels tax payments.
- We made changes to our offer-in-compromise (OIC) program to make it easier for a business defrauded by a PSP to obtain an OIC. Revised document requirements for such offers allow our OIC specialists to process offers submitted by these taxpayers more expeditiously than they otherwise would be.

In conducting our enforcement program, the IRS strives to ensure all taxpayers, including small businesses, receive fair treatment in their dealings with us. One important aspect of ensuring fair treatment involves raising taxpayers' awareness of their rights when interacting with the IRS, especially when tax disputes arise. In 2014 the IRS adopted a Taxpayer Bill of Rights that we believe is a cornerstone document that will help taxpayers, including small business owners, understand their rights in the tax process.

The Taxpayer Bill of Rights contains 10 fundamental rights that every taxpayer should be aware of, such as the right to receive quality service from the IRS, the right to pay no more than the correct amount of tax, and the right to retain representation when a taxpayer has a disagreement with the Service. Each one of these 10 rights is in our tax code, but the length and complexity of the code make it difficult to understand these rights or even find where they are in the code. Our employees believe in these rights and are doing their best to advise taxpayers about them and to support them in their day-to-day activities. To further strengthen these efforts, the IRS is working expeditiously to implement the provisions passed in the Protecting Americans from Tax Hikes Act of 2015, which adds to the Commissioner's duties the requirement to ensure that employees of the IRS are familiar with and act in accordance with taxpayer rights as afforded by other provisions of the Internal Revenue Code.

NEED FOR ADEQUATE RESOURCES AND LEGISLATIVE SOLUTIONS

It is important to note that continuing initiatives like the ones that I have described in my testimony depends on the IRS receiving adequate resources to fund them. Our efforts to assist small

business taxpayers are challenged by the difficult budget environment we are in. The IRS's funding was cut significantly for the five years from 2011 to 2015, and those reductions have taken a toll on both taxpayer service and enforcement programs.

Congress did approve \$290 million in additional funding for the IRS for FY 2016, which we appreciate. The additional funds were directed to be used to improve service to taxpayers, strengthen cybersecurity and expand our ability to address identity theft. This was a major step in the right direction. But even with this additional funding, we are still under significant financial constraints, as the IRS appropriation remains \$900 million below the FY 2010 enacted level, and the reductions are more significant in inflation-adjusted terms.

As a result, we will need to continue the exception-only hiring policy that began in FY 2011, leaving us unable to replace most employees we lose this year through attrition. In fact, we expect the IRS workforce to continue to shrink by another 2,000 to 3,00 full-time employees during FY 2016, equaling a loss of over 17,000 full-time employees since FY 2010.

Therefore, I continue to urge Congress to approve the President's FY 2017 Budget for the IRS, which requests a base increase of \$530 million over the FY 2016 enacted level. This would support improvements to a wide range of taxpayer service activities and investments to help prevent identity theft and refund fraud and to reduce improper payments. The Budget also proposes a multi-year program integrity cap adjustment to restore and improve tax enforcement activities, including a \$515 million investment in FY 2017 to reduce the deficit and narrow the tax gap. If approved, the cap adjustment would yield an estimated net taxpayer savings of \$46 billion over the next 10 years.

As important as adequate funding is to improving our efforts to help small businesses, Congress also has an important role to play by passing legislative proposals that would simplify tax administration. In that regard, let me highlight several important legislative proposals in the President's FY 2017 Budget in the area of small business:

- ***Simplified Accounting Methods.*** Although current law contains various provisions granting relief to small businesses from complex tax accounting rules, the eligibility requirements for these forms of relief are not uniform. They rely on varying forms of gross receipts tests, with widely different exception thresholds, and different rules depending on the classification of a taxpayer's business activities. Therefore, a uniform definition of a small business for determining applicable accounting rules would simplify tax administration and taxpayer compliance. The Administration's proposal would create a uniform business threshold, set at \$25 million in average annual gross receipts and indexed for inflation, for qualifying for exceptions from certain accounting rules.
- ***Increased Expensing Limitation.*** Section 179 of the Internal Revenue Code allows taxpayers to elect to deduct up to \$500,000 of the cost of qualifying depreciable property placed

in service during a taxable year, rather than depreciating the asset. The Administration's proposal would increase the \$500,000 limit to \$1 million. This would not only reduce the after-tax costs of tangible depreciable assets, but also provide accounting simplification for many small businesses, by allowing them to avoid the complexity of tracking depreciation. As with the current limit, the proposal \$1 million cap would be adjusted for inflation.

- ***Increased Deduction for Start-Up Expenses.*** Current law allows new business owners to deduct \$5,000 of start-up costs for the first year they are in business. Businesses organized as corporations or partnerships may also deduct \$5,000 in organizational costs in their first year. To support new business formation and job creation, the Administration's proposal would allow up to \$20,000 of new business expenditures, including organizational costs, to be deductible in the first year. As under current law, businesses would be allowed to amortize, over 15 years, start-up costs that exceed the deductible limit. The proposal would also consolidate various Code provisions related to new business expenditures, reducing burden on new business owners.

- ***Improving the Small Business Health Care Tax Credit.*** The Affordable Care Act permits small employers to take a tax credit for a portion of the cost of providing health coverage for their employees. To be eligible, employers must have no more than 25 full-time equivalent employees and pay at least half of the employees' health premiums. Also, the employees' average annual wages must not exceed a specified level, indexed for inflation. That amount for 2016 is \$51,800. The credit is phased out on a sliding scale between 10 and 25 full-time employees, as well as between an average annual wage of \$25,900 and \$51,800 in 2016. The administration's proposal would raise the 25-employee limit to 50 and begin the phase-out at 20 employees, rather than 10. The proposal would also change the way the phase-out rules are coordinated to provide a more gradual, combined phase-out.

Chairman Chabot, Ranking Member Velazquez, and members of the Committee, this concludes my statement, and I would be happy to answer your questions.

House Small Business Committee Hearing on “Keep It Simple:

Small Business Tax Simplification and Reform, the Commissioner Responds” QFRs

Chairman Steve Chabot

You state in your testimony, “We do not have a direct role in tax law simplification since tax policy is the domain of the Congress, White House, and Treasury Department . . .” However, at least count, statutes passed by Congress accounted for fewer than 3,000 pages as compared to 9,000 pages of regulations.

1. Is it your contention that regulations do not in any way affect tax policy?

IRS response: Tax policy direction originates with laws enacted by Congress. Treasury regulations implement the law enacted by Congress and reflect tax policy and tax administration decisions made by the Treasury Department and the Internal Revenue Service. Responsibility for tax policy decisions within the Department of Treasury rests with the Assistant Secretary for Tax Policy, and attorneys from the IRS Office of Chief Counsel participate with Treasury attorneys in the Office of Tax Policy in drafting regulations that reflect these tax policy decisions. Limiting the burden on taxpayers in ways that promote sound tax administration is an important consideration in that effort.

2. Doesn’t the IRS have at least some control over how lengthy or cumbersome to make these regulations?

IRS response: The IRS recognizes regulations are often lengthy and complex. There are several reasons for that. The Internal Revenue Code is itself very complex. When Congress enacts tax legislation it often gives only a statutory framework, and then gives the Secretary authority to provide more specific rules in regulations. This often requires the Secretary to address a myriad of types of specific transactions and taxpayers to whom the statute applies, and to do so in a manner that builds on that statutory framework to carry out Congressional intent. The Office of Tax Policy and IRS Chief Counsel attorneys consult with those in the IRS who have responsibility for administering the relevant Code sections during the drafting process to ensure the regulations are effective and administrable. The public is also given the opportunity to comment on the length, complexity, and burden of the regulations in accordance with various statutory requirements, such as the Paperwork Reduction Act. So although some tax regulations are lengthy and complex, the IRS Office of Chief Counsel and the IRS strive, in our coordination with Treasury’s Office of Tax

Policy, to make them no longer or more complex than necessary.

It is important to note that in many instances it is taxpayers and tax practitioners who ask for more detailed regulations. In commenting on proposed tax regulations, for instance, tax practitioners often request more detailed guidance to provide taxpayers with more certainty in complying with the very complex statutory rules. Finally, even after regulations are published, more detailed amendments to regulations are sometimes necessary when, in the course of preparing or auditing returns, gaps, ambiguities, or abuses are discovered.

Congressman Crescent Hardy

According to a recent Office of Advocacy report, the United States has over 28 million small businesses.

1. What are you and your agency doing to alleviate the ongoing tax concerns of these 28 million small businesses?

IRS response: The IRS has a wide range of products, tools and initiatives designated to assist small business owners in understanding and meeting their federal tax responsibilities. Products and tools on **IRS.gov** include:

- **Small Business Tax Center** at <https://www.irs.gov/Businesses/Small-Businesses-&Self-Employed>
 - Provides resources for taxpayers who file Form 1040, Schedules C, E, F, or Form 2106, as well as small businesses with assets under \$10 million, including information on:
 - Employer ID Numbers (EINs)
 - Forms and Publications
 - Self-Employment Taxes
 - e-File Employment Taxes
 - Provides a direct link from practitioner or small business organization websites to IRS.gov information that is designed for their members' specific needs
 - Provides easy access to numerous resources
- **Online Learning**
 - Small Business Taxes: The Virtual Workshop
 - Explains how small businesses can meet federal tax obligations in nine easy-to-understand lessons, including:
 - What you need to know about federal taxes
 - How to file and pay your taxes electronically, and
 - How to manage payroll so you withhold the correct amount

- IRS Video Portal—users can watch helpful videos and webinars, including:
 - Navigating the Small Business and Self-Employed Tax Center
 - Business Taxes for the Self Employed
 - Avoiding the Biggest Tax Mistakes, and
 - Small Business Owners: Get All the Tax Benefits You Deserve
- Online Tools and Educational Products
- Small Business Events—ongoing IRS small business workshops and events
- **Penalties at a Glance webpage**
 - Provides information about penalty relief options, eligibility and instructions
- **Recordkeeping Guidance**
 - Provides detailed information, including a YouTube video, to assist small business owners in understanding recordkeeping requirements
- **Free Information Webinars**
 - For Small Business Week, May 1-7, 2016, the IRS hosted four informational webinars for small business owners:
 - May 2 - Tax Tips for your New Business
 - May 3 - Staying Afloat: Planning for Emergencies Before they Happen
 - May 4 - Worker Classification: Employee or Independent Contractor? - (in Spanish)
 - May 5 - Tip Reporting and Tips v. Service Charges
- **Online Small Business Tax Calendar**
 - Links due dates and events to help small business owners meet tax deadlines
 - Includes an IRS Calendar Connector tool, which allows access to calendar events from a desktop
 - Allows users to have Calendar reminders sent to their email inbox via RSS Feeds one or two weeks in advance of when a form or payment is due
 - North and South Carolina have partnered with the IRS to create joint fed/state calendars which are available on their respective websites

The IRS also provides **e-News for Small Businesses**. This electronic mail service provides tax information to over 309,000 subscribers. E-News is used to increase awareness of the tools and products available. Taxpayers can sign up on IRS.gov.

The IRS also develops and implements compliance assistance programs to assist under-served business start-ups and improve their knowledge of the tax code. Current efforts include:

- Providing the Small Business Tax Center information and other available resources to users when they apply for a new EIN via the EIN application page on IRS.gov
- Leveraging IRS partnerships to deliver small business tax information
- Providing small business tax workshop training materials to our partners for use in presenting these workshops. In calendar year 2015, there were more than 916 English language Small Business Workshops held by IRS partners and more than 73 Spanish language workshops
- Identifying small business issues for review by federal advisory groups and implementing approved recommendations
- Encouraging partners/stakeholders to market Low Income Tax Clinics (LITCs) to small business owners who can't pay for return preparation and tax controversy resolution
- Partnering with LITCs to provide small business owners with easy access to tax information, online payment agreements and tools to combat business ID theft
- Partnering with agencies that interact with start-up businesses (e.g., SBA, Postal Service) to prominently place the IRS Small Business Tax Centers on their websites
- Increasing internal marketing of outreach products for sharing with taxpayers
- Providing our outreach materials within the IRS operating divisions
- Delivering business identity theft prevention messages to startup businesses

The IRS continues to support new entrepreneur outreach efforts by establishing relationships with entrepreneurial organizations so they can include IRS information in their curriculum and publications, and partnering with associations that assist new entrepreneurs. To date, FY16 activities include:

- Customized materials and coordinated message delivery at:
 - 114 in-person outreach events directly reaching over 3,499 direct participants
 - 52 virtual events with 1,971 participants including many new business owners
- Materials distributed via 344 small business email distribution lists, which reach thousands of small business organizations

As noted in the written testimony, even as we seek to provide top-quality service to small business taxpayers, the IRS also must carry out a robust enforcement program. While the IRS has an obligation to make sure all individuals and businesses pay the taxes

they owe, it is especially critical in the small business community, in order to maintain a level playing field for all business owners.

The enforcement activities we conduct help ensure that those small business owners who are fulfilling their tax obligations are not disadvantaged by others who may be cutting corners, whether that involves income taxes, employment taxes, or the classification of workers as employees or independent contractors.

In many cases, actions taken to improve enforcement can also help taxpayers and increase voluntary compliance. An excellent example is our new Employment Tax Early Interaction Initiative, which was launched last December.

Under this initiative, the IRS seeks to identify employers who appear to be falling behind on their interim employment tax payments before they file their annual employment tax returns and are so far behind that payment of the entire tax due at one time can be difficult. We offer helpful information and guidance through contacts such as letters and automated phone messages. In the past, the first attempt by the IRS to contact an employer having payment difficulties often did not occur until much later in the process, after unpaid tax obligations were already beginning to mount. This initiative is designed to help employers stay current and in compliance to avoid large tax bills and interest and penalty charges. This initiative can be seen as a more efficient enforcement activity or a form of improved taxpayer service, but we believe it is both.

Within the employment tax area, another important component of our efforts to make it easier for small businesses to meet their obligations involves helping businesses that outsource some or all of their payroll and related tax duties to third-party payroll service providers (PSPs). While most PSPs do a good job of helping small businesses meet filing deadlines and deposit requirements, businesses sometimes can fall prey to unscrupulous PSPs that defraud clients and abscond with their payroll tax deposits, leaving the employer liable for amounts they thought had been remitted to the IRS but were not.

We have taken many steps to help protect employers from becoming victims of unscrupulous PSPs, and to provide assistance when fraud does occur, including the following:

- Unscrupulous PSPs sometimes change the address of their clients (without their clients' consent) to that of the PSP, so that the client never sees tax delinquency notices sent by the IRS. In 2015, the IRS began sending identical notices to both the old and new addresses on file for an employer after an address change is received.
- In 2014, we created the Inquiry Personal Identification Number (PIN), which is used by business owners who use PSPs. They can use their Inquiry PIN to access the Electronic Federal Tax Payment System (EFTPS) to check whether tax payment submissions were made timely on their behalf by their PSP. Additionally, we are working to modify the EFTPS

to allow for the issuance of emails to business owners when their PSP makes or cancels tax payments.

- We made changes to our offer-in-compromise (OIC) program to make it easier for a business defrauded by a PSP to obtain an OIC. Revised document requirements for such offers allow our OIC specialists to process offers submitted by these taxpayers more expeditiously than they otherwise would be.

Also, beginning July 1, 2016, the IRS will begin accepting application materials under the new certified professional employer organization (CPEO) program. The Tax Increase Prevention Act of 2014, enacted Dec. 19, 2014, required the IRS to establish a voluntary certification program for professional employer organizations (PEOs). PEOs handle various payroll administration and tax reporting responsibilities for their business clients and are typically paid a fee based on payroll costs. Unlike PSPs, PEOs report and pay payroll taxes under their EINs, rather than the clients' EINs, and often hold themselves out as employers or "co-employers," even though the latter is not recognized for federal tax purposes. To become and remain certified under the new program, CPEOs must meet tax status, background, experience, business location, financial reporting, bonding and other requirements described in the statute and regulations. As required by law, the IRS will publish lists (to be updated quarterly) of PEOs that have been certified under the program and of those whose certification has been revoked or suspended, which may help businesses locate reputable service providers.

In the written testimony at <http://smallbusiness.house.gov/koskinen/testimony>, we also highlighted the following recent actions the IRS has taken to reduce burden on small businesses to help them comply with the tax laws, and some important legislative proposals in the President's FY 2017 Budget for small business:

Recent examples of IRS actions to reduce burden on small businesses.

- **Increased Expensing Thresholds**
- **Home Office Deduction**

Several important legislative proposals in the President's FY 2017 Budget for small business, including:

- **Increased Expensing Limitation**
- **Expanding Simplified Accounting for Small Businesses and Uniform Definition of Small Business for Accounting Methods**
- **Increased Deduction for Start-Up Expenses**